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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Soviet Entry Into the Belgian Oil Industry

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
June 1968

INTELLIGENCE MEMORANDUM

Soviet Entry Into the Belgian Oil Industry

Summary

Recent action by the USSR designed to lead to investment in petroleum importing, distributing, and refining facilities in Belgium reflects a new Soviet policy to expand participation in Free World oil refining and marketing activities. A newly chartered joint Soviet-Belgian oil company, Nafta (B), has announced plans to construct an oil importing and distribution facility on land it has leased in the Antwerp harbor area. Plans also call for Nafta (B) to engage in refining operations, and an offer, apparently unsuccessful, has been made to buy a small refinery from an independent Belgian oil company. Previously the USSR has refrained from investing in oil facilities abroad and, except for a small marketing and brokerage firm in England, from engaging in local commercial oil activities in Free World countries.

The oil sales currently contemplated by Nafta (B) are too small to change significantly the market shares of the traditional suppliers or to influence prices in Belgium, or to make much profit for the USSR. The USSR, however, can use Nafta (B) to gain experience in commercial and governmental procedures in the Western oil business and shows a willingness to adapt to Western business procedures.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research.

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Background

1. A Soviet-Belgian firm -- Nafta (B) -- capitalized initially at a nominal $60,000 and owned 60 percent by Soviet agencies and 40 percent by private Belgian interests, was established in Antwerp in December 1967. Under the articles of incorporation, Nafta (B) can engage in all commercial and industrial operations (including refining) related to petroleum. It has leased 60 acres of land in the Antwerp harbor area for development as a petroleum import and distribution facility and has attempted to purchase a small refinery near Antwerp from an independent Belgian firm. This is the first evidence of Soviet willingness to invest abroad in both marketing and refining and may reflect a new policy to expand participation in Free World oil activities.

2. The only other Soviet venture in foreign oil marketing is Nafta (GB), Ltd. in Great Britain. This company, capitalized at a nominal $120,000, is a successor to Russian Oil Products Ltd., which existed in Britain before World War II. Nafta (GB) owns minor petroleum storage facilities and markets locally procured petroleum products principally through about 100 retail outlets in Britain. It has no authority to import oil from Communist sources or to refine petroleum. Except for its minor interest in the United Kingdom, the USSR has hitherto confined its activities in Free World oil essentially (1) to sales of crude oil and refined products to companies (including government-owned concerns) having established oil refining and distribution facilities and (2) to aid programs in the less developed countries involving technical assistance and equipment for the exploration and production phases of the oil industry. Neither of these activities involved foreign investment or the ownership of assets abroad.

Belgian Imports of Communist Oil

3. In 1967, Belgium imported about 570,000 tons of petroleum products from Communist countries -- 450,000 tons from the USSR and 120,000 tons from Rumania and East Germany. These imports covered about 3 percent of Belgium's demand for petroleum in 1967 of about 16 million tons. Most of Belgium's

oil imports now come from the Middle East and North Africa. The Belgian government reportedly established the following annual import quotas of Communist oil beginning in 1968:

	Thousand Metric Tons
USSR - petroleum products	600
crude oil	700
Rumania - petroleum products	220
East Germany - petroleum products	150
Total	*1,670*

4. It appears unlikely that the USSR will use its full import quota of crude oil and products before 1970. Petroleum tankage and distribution facilities on the tract at Antwerp are not scheduled to be completed until mid-1969.* Rented or leased facilities might be found in the interim for handling petroleum products, but the crude oil quota cannot be used until refining facilities are available.** [redacted] 25X1

* *Nafta (B) plans to develop the leased land at Antwerp in three phases. The first phase, scheduled for completion in May 1969, provides for about 260,000 cubic meters of petroleum tankage along with other supporting facilities. Details of the second and third phase are incomplete, but by the end of the third phase total tankage will amount to 750,000 cubic meters.*

** *The conditions of the crude oil quota stipulate that the imported crude must be refined by Nafta (B) in Belgium and cannot be re-exported or sold locally in its crude form or as fuel oil to powerplants.*

5. The Communist oil quota of nearly 1.7 million tons -- assuming that it remains unchanged and is fully used -- would represent about 9 percent of total Belgian demand in 1970, which will have grown to about 20 million tons. If the USSR's plans materialize, the lion's share of the increase in Belgium's petroleum supply between 1969 and 1970 would come from Soviet imports. [redacted] Spokesmen for the Belgian government who favor the deal with the USSR claim that it will permit a further diversification of sources of oil imports, foster an expansion of the oil industry and domestic employment, and promote Belgian exports to Communist countries.* Most of the oil imports would be tied to barter arrangements and are expected to be offset by Belgian exports to Communist countries.

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<u>Nafta's Aims in Belgium</u>

6. [redacted] The economic gains that Nafta (B) will realize from these activities will not be significant, because of the small size of its import quota. The quota, moreover, will not enable Nafta (B) to influence oil prices or the retail market.

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7. Short-term economic considerations may be of secondary importance to the USSR. With only a small investment the USSR can use the operations of Nafta (B) for "on-the-job" experience in Western government and commercial procedures on such matters as customs, taxes, labor relations, and marketing in the Western oil business. The experience gained in Belgium could have long-term application in Belgium and in other Free World countries. But irrespective of Soviet motives, Belgium is an attractive testing area for the new venture, as there are several independent oil distributors through which Nafta (B) might sell its products until its own retail outlets are established.

** Belgium ran a trade deficit with the USSR of $34 million in 1966 and $19 million in 1967.*